Health Services
LOS ANGELES COUNTY

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September 28, 2010

TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D. for
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK (BOARD AGENDA, ITEM S-1, SEPTEMBER 28, 2010)**

This is to provide a Summary of Changes in the DHS Fiscal Outlook (Attachment I) since our last Budget Committee of the Whole report to your Board on May 18, 2010. As indicated in the Summary of Changes, the Fiscal Year (FY) 2009-10 year-end balance in the Department's designation fund is $3.9 million, and the current estimated shortfall for FY 2010-11 is $(270.6) million. The developments contributing to these changes are summarized in the attached Summary of Changes. Key developments impacting the fiscal forecast are described in this report.

Key Factors Impacting DHS Fiscal Outlook

The year-end positive balance for FY 2009-10 and the reduction in the estimated deficit for FY 2010-11 are primarily due to the accrual of anticipated Hospital Provider Fee funds, an adjustment to increase the Measure B property assessment rate, and the extension of the enhanced Federal Medical Assistance Percentage (FMAP) from January through June 2011. The Department accrued $144.2 million in FY 2009-10 in anticipated Provider Fee funds. The Measure B increase provides $14.7 million on an ongoing annual basis, beginning in FY 2010-11. The value of the FMAP extension is estimated to be approximately $22.0 million for FY 2010-11, a reduction of $11.8 million from the original estimate.

Potential Solutions to Reduce FYs 2010-11 and 2011-12 Deficits

The "Ideas for Potential Solutions" that could improve the fiscal forecast are summarized in Attachment II. The highlights of the major components are described below.

Hospital Provider Fee

On September 8, 2010, AB 1653, was signed into law. This bill establishes the hospital provider fee program for the period April 2009 through December 2010. Additional legislation will be required to extend the fee from the January 2011 through June 2011 period to coincide with the period of the enhanced FMAP extension. An ongoing provider fee beyond June 2011 would also require legislation. According to the sponsor of AB 1653, the California Hospital Association, a bill to extend the provider fee through June 2011 is anticipated by January 2011. As of September 22, 2010, final approval of the provider fee by the Centers for Medicare & Medicaid Services (CMS) was still pending.

1115 Waiver

The State's request for a 60-day extension of the current waiver, which was set to expire August 31, 2010, was approved by CMS. The 60-day extension will allow payments under the current waiver to continue through October 31, 2010 while negotiations on a new waiver continue between the State and CMS. The State expects to finalize the terms and conditions of the new waiver, on a flow basis as agreement is reached on a particular waiver component, prior to the end of the extension period. The State believes that they are close to resolution on the Coverage Initiative and the proposal to move Seniors and Persons with Disabilities into Medi-Cal managed care, and that the terms and conditions for these two programs will be completed shortly.

However, there are significant waiver issues pending. For example, budget neutrality, which determines the overall value of the waiver, has not been finalized. The State expects CMS to submit budget neutrality to the Office of Budget and Management for their approval within the next few days. Also, there is incomplete information on the proposed investment pool which the Department believes will provide the best opportunity to receive additional funding. Although we know that CMS plans to condition the receipt of investment pool funds on the achievement of demanding goals and milestones, we do not yet know the details regarding how such funds could actually be accessed. These uncertainties make program planning and fiscal projections very challenging.

The Department continues its focus on the 1115 Waiver as the primary way to mitigate the Department's structural deficit. At this time, since the State has not completed waiver negotiations with CMS, it is unclear to what extent the Department's deficit may be affected by the new waiver. It is anticipated that additional revenues from the waiver are likely to be insufficient to close the budget gap.

The Department is actively engaged with the State on resolving pending waiver issues favorably, especially those components most likely to have the greatest potential impact on the Department. As reflected in the fiscal forecast, it is critical that the County receive additional federal funding in the new waiver because without additional funds, the Department will not be able to close its budget deficit and restructure the DHS system in preparation for health care reform.

Budget Cuts

On July 27, 2010, on motion by Supervisors Molina and Yaroslavsky, as amended by Supervisor Ridley-Thomas, your Board instructed the Chief Executive Office (CEO) and

DHS to report back to the Board in 15 days with the following: 1) a detailed analysis of what specific cuts must be made to the County's health care system if the 1115 Waiver, FMAP, and the Hospital Provider Fee revenue options fail to materialize, including any and all cuts and reductions to inpatient, Public/Private Partnership (PPP), and specialty and ambulatory care services countywide, in order to balance the DHS' operating budget in 2010-11; and 2) how unreimbursed costs from other departments impact the DHS budget and how those costs will be addressed.

The Department believes it is important to have more definitive information about the Terms and Conditions for the new 1115 Waiver before we return to your Board with proposals to close any remaining budget gap. The requirements related to any 1115 Waiver funding would have an impact on the proposals the Department will recommend. The Department will also continue to monitor new developments on a potential extension of the hospital provider fee and any proposals for a longer term fee. Additional reports to your Board will continue to be provided as relevant new developments occur.

Unreimbursed Services to Other County Departments

DHS currently provides services to other County departments that are not fully reimbursed. The amounts by department are:

- Sheriff - $37.5 million, and
- Probation - $8.9 million (includes a total of $1.2 million in unreimbursed hospital and mental health costs in DHS facilities)

A solution to these shortfalls is not part of the attached "Ideas for Potential Solutions" document (Attachment II). They are being looked at as part of the CEO's multi-year forecast going forward.

<u>Anticipated Revenues Under Healthcare Reform</u>

In response to Supervisor Antonovich's August 3, 2010 request, the Department developed a preliminary estimate for FY 2014-15, the first full fiscal year subsequent to the implementation of healthcare reform on January 1, 2014, based on current payment structures (e.g., cost based reimbursement) and certain assumptions regarding future payor mix. The payment structure and mechanisms that will be used in healthcare reform are unclear at this time so the estimate is projected using current payment methods. Additionally, it is not known with certainty how many of DHS' current patients will continue to use our facilities, nor how many newly covered patients may seek access to services at DHS facilities.

In order to develop this preliminary estimate, we made the following assumptions: a) DHS would retain its currently covered patient population; b) there would be a 30 percent increase in the number of newly covered DHS patients; c) 200,000 patients will obtain coverage and leave the DHS system; and d) 200,000 will remain uninsured. Based on this scenario, it is estimated that the Department's projected deficit will be significantly reduced from \$803.7 million to \$24.6 million in FY 2014-15.

It is extremely important to stress that the assumptions used in this preliminary estimate are expected to change as we move toward healthcare reform, and depending on what the specific changes are, the effect on this preliminary estimate could be material. For example, the State has indicated that because there is expected to be significantly less demand on counties to provide indigent care after healthcare reform in 2014, there will also be significantly less need for the State to provide realignment funding to counties. Any sizable reduction in realignment funding to the County would have far-reaching implications.

Number of Licensed/Unbudgeted Beds

As requested by Supervisor Antonovich at the July 13, 2010 Board meeting, the attached schedule (Attachment III) reflects the number of licensed, unbudgeted beds at each of our hospitals, by service type.

Mandated Services

A report responding to Supervisor Antonovich's request at the July 27, 2010 Board meeting for information regarding what services are mandated will be provided under separate cover.

If you have any questions or need additional information, please let me know.

JFS:aw
Fiscal Outlook memo 092810 - ceo3.DO
609:005

Attachments (3)

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

MAY 11, 2010 THROUGH AUGUST 24, 2010

		Fiscal Year / $ In Millions					
		09-10	10-11	11-12	12-13	13-14	Total
(1)	**Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 5/11/10** [A]	$ (204.2)	$ (599.5)	$ (1,104.2)	$ (1,719.7)	$ (2,454.5)	$ (2,454.5)
	Subsequent Adjustments						
(2)	Include Hospital Provider Fee (for April 2009 through December 2010)	144.2	57.7	-	-	-	201.9
(3)	Reduced costs for retiree health insurance and workers' compensation based on expenditure trends [B]	-	9.7	16.2	23.8	32.6	82.3
(4)	Additional efficiency savings and revenue enhancements to mitigate the Department's deficit	-	17.8	17.8	17.8	17.8	71.2
(5)	Measure B rate increase approved by the Board on August 24, 2010	-	14.7	14.7	14.7	14.7	58.8
(6)	Reduced FY 07-08 revenue estimates pending CMS' review on reimbursable costs	(33.1)	-	-	-	-	(33.1)
(7)	Improvements in various revenues [C]	28.9	-	-	-	-	28.9
(8)	Continued efforts to control expenditures on hiring, capital assets, and pharmaceuticals	18.4	-	-	-	-	18.4
(9)	Increased AB 915 revenue for FY 08-09 going forward primarily due to increased Medi-Cal utilization as a result of the emergency room reconfiguration at LAC+USC Medical Center	6.9	2.6	2.5	2.6	2.7	17.3
(10)	Use of Measure B reserves to partially offset uncompensated emergency and trauma care services	9.0	7.5	-	-	-	16.5
(11)	Reduced commercial paper costs [D]	15.9	-	-	-	-	15.9
(12)	Reduced enhancement of Federal Medical Assistance Percentage (FMAP) extension through June 2011	-	(11.8)	-	-	-	(11.8)
(13)	Adjusted equipment costs for the H-UCLA Medical Center's Surgery/Emergency Room Project based on revised implementation date of July 1, 2011	-	16.2	(7.2)	-	-	9.0
(14)	Improvement in Managed Care Rate Supplement revenue based on final payments received for Federal FY 08-09 (October 2008 through September 2009) from the State in August 2010	7.6	-	-	-	-	7.6
(15)	Reduced debt service costs (primarily for rent and capital lease expenses)	2.6	-	-	-	-	2.6
(16)	Adjusted planning costs for the electronic health record project based on revised implementation date of July 1, 2011	-	5.5	(4.1)	(0.2)	-	1.2
(17)	Updated projected repair costs for damages caused by the Sayre fire at OV-UCLA Medical Center	-	3.7	(2.5)	-	-	1.2
(18)	Revised medical malpractice charges based on anticipated case resolution dates	5.5	(5.5)	-	-	-	-
(19)	Other changes in FY 09-10 per final actual / Minor updates to future estimates	2.2	2.7	(1.2)	(1.2)	(1.3)	1.2
(20)	Forecast improvement/(reduction) roll-forward	-	208.1 [E]	328.9 [E]	365.1 [E]	422.6 [E]	-
(21)	**Revised Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 8/24/10** [A]	$ 3.9	$ (270.6)	$ (739.1)	$ (1,297.1)	$ (1,965.4)	$ (1,965.4)

Notes

(A) FYs 10-11 through 13-14 assume Medi-Cal Redesign 1115 Waiver extension at current levels.

(B) Retiree health insurance is projected at the FY 09-10 level and inflated by 4.6% instead of the previously anticipated 12% per the CEO in June 2010; and workers' compensation is projected at the FY 09-10 level.

(C) This reflects higher than anticipated revenues primarily for Medi-Cal Outpatient, Mental Health, Medicare, Section 1011, and Medi-Cal Health Maintenance Organization (HMO).

(D) Per the CEO-Real Estate Division in July 2010, interest and administrative expenditures for commercial paper incurred in FY 09-10 were reduced because of the successful renewal of the commercial paper program with lower interest rates, and the reduced costs were fully offset by one-time revenues from CEO Project and Facility Development funds.

(E) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the $422.6 million on Line# 20 in FY 13-14 is $(1,297.1) million - $(1,719.7) million from FY 12-13.

ATTACHMENT I

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

IDEAS FOR POTENTIAL SOLUTIONS

FISCAL YEARS 2010-11 AND 2011-12 (NON-CUMULATIVE)

($ IN MILLIONS)

	FY 10-11	FY 11-12	Total	Comments
Estimated Year-End Balance/(Shortfall) - Before Adjustment for Financial Stabilization	**($391.1)**	**($589.0)**	**($980.1)**	
Financial Stabilization	120.5	120.5	241.0	
Estimated Year-End Balance/(Shortfall) - 8/24/10	**($270.6)**	**($468.5)**	**($739.1)**	
POTENTIAL SOLUTIONS				
> **Waiver**	125.0	150.0	275.0	The estimated value of the Waiver is $450.0M Statewide. Estimate is based on LA County's current percentage of Waiver funding. FY 10-11 assumes an effective date of November 1, 2010
> Additional **Hospital Provider Fee** from enhanced FMAP Extension	37.0	-	37.0	Due to the 6-month extension of FMAP (January - June 2011)
> Ongoing **Hospital Provider Fee**	-	40.0	40.0	Estimated annual value based on FMAP at 50%
> Funding for **Pharmaceuticals CPI** included in the base estimate above (1)	9.8	9.9	19.7	
> Savings from Materials Management proposed **GHX Formulary System**	1.3	3.0	4.3	Assume an implementation date of April 1, 2011
> Defer staffing of **OV-UCLA Medical Center's TB Unit** (included in the base estimate above)	1.1	2.2	3.3	
> **State Budget Impact**	??	??	??	State may impose further funding reductions to solve its own deficit
Adjusted Estimated Year-End Balance/(Shortfall)	**($96.4)**	**($263.4)**	**($359.8)**	

Notes:

1) Reflects Consumer Price Index (CPI) adjustments for pharmaceutical costs at 6.4% and 6.1% for FYs 10-11 and 11-12, respectively.

ATTACHMENT II

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
LICENSED AND UNBUDGETED BEDS BY SERVICE TYPE
FISCAL YEAR 2010-11

Service Type	LAC+USC MC		H-UCLA MC		RLANRC		OV-UCLA MC		TOTAL DHS	
	Licensed (1)	Unbudgeted (2)	Licensed (1)	Unbudgeted (2)	Licensed (1)	Unbudgeted (2)	Licensed (1)	Unbudgeted (2)	Licensed (1)	Unbudgeted (2)
Obstetrics/Gynecology (Perinatal)	32	5	50	31	-	-	29	14	111	50
Pediatrics	25	8	34	15	-	-	32	29	91	52
Psychiatric	124 (3)	65	39	3	-	-	80	49	243	117
Medical/Surgical & Other	383 (4)	28	334 (5)	121	221	116	170	58	1,108	323
Intensive Care Unit	120	30	46	5	24	20	42	30	232	85
Neonatal Intensive Care Unit	40	11	35	19	-	-	24	12	99	42
Rehabilitation	-	-	-	-	150	76	-	-	150	76
Total DHS	724	147	538	194	395	212	377	192	2,034	745

Notes:

(1) Licensed beds are based on the facilities' actual State of California issued operating business certificates for the current operating period.
LAC+USC MC expires March 31, 2011
H-UCLA MC expires April 30, 2011
RLANRC expires March 30, 2011
OV-UCLA MC expires May 7, 2011

(2) Unbudgeted beds - calculated using Average Daily Census from the monthly workload report as of June 2010 and exclude nursery bassinets.

(3) The Department recently submitted a request to the State Department of Health Services to decrease the number of licensed beds for Psychiatric Services from 124 to 76.

(4) Licensed beds include 343 Unspecified General Acute Care; 20 Burns; 10 Coronary Care; and 10 Intensive Care Unit Flexible Beds as approved by the California Department of Public Health Licensing and Certification Program.

(5) Licensed beds include 309 Unspecified General Acute Care; 8 Acute Respiratory Care; 6 Coronary Care; 6 Renal Transplant; and 5 Chronic Dialysis Stations.

ATTACHMENT III